DOCUMENT RESUME

ED 159 807 EA 010 917

AUTHOR Furno, Orlando F.; And Others
TITLE An Analysis of the Impact of State Aid Formulas on Local School Districts in New York State. A Summary Report.
PUB DATE [78]
NOTE 78p.; A Summary Report of Study #1, Project 842, New York State School Finance Law Study Project

EDRS PRICE MF-$0.83 HC-$4.67 Plus Postage.
DESCRIPTORS Elementary Secondary Education; Equalization Aid; Foundation Programs; School Districts; *State Aid; State School District Relationship; Statistical Analysis; Student Transportation
IDENTIFIERS *New York; New York State School Finance Law Study Project; State Aid Formulas

ABSTRACT

Although New York State's provisions for funding public education are among the best in the nation, improvements are needed in the state aid program. In this study, school district data on expenditures and wealth were analyzed and evaluated. Two direct causes of the substantial inequalities among school district services in New York are the operating aid formula as a whole and the dependence of the state's 705 districts on property tax for local revenues. In addition to the effect of the formula as a whole on the expenditure gap, certain specific features of the formula contribute directly to the increasing gap between rich and poor districts. These features include the flat grant provision, the save harmless provision, and the low level of the foundation program. The use of certain variables in all the current New York state aid formulas creates complications, inaccuracies, and distortions in aid, some of which are closely related to wealth and further tend to increase the expenditure gap. Transportation aid as a whole is unequalized, complicated, subject to manipulation, probably requires more paperwork than all other state aids combined, and does not provide sufficient incentives for economical operation. (Author/JM)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED159807

U S DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
EDUCATION

THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

NY State Dept. of Edu.

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC) AND USERS OF THE ERIC SYSTEM."

AN ANALYSIS OF THE IMPACT OF STATE AID FORMULAS ON LOCAL SCHOOL DISTRICTS IN NEW YORK STATE

A SUMMARY REPORT OF STUDY #1, PROJECT 842 NEW YORK STATE SCHOOL FINANCE LAW STUDY PROJECT

ORLANDO F. FURNO, DIRECTOR
JAMES M. GAUGHAN
WILLIAM J. FOWLER
CHARLES T. NEPHEW

EA 010 917

FOREWORD

This report is a summary of Study #1, An Analysis of the Impact of State Aid on Local School Districts in New York State. This is one of the studies done under Project 842, New York State School Finance Law Study. A complete list of these studies is presented in Appendix.

While this report deals with the provisions in the current law which require improvement, it is exceedingly important for the reader to understand that New York State's provisions for funding public education are among the best in the nation. Study #1 as well as its summary reported herein focused on those provisions needing improvement. That was the principal purpose of Study #1, to analyze the impact of State aid provisions on local school districts with the goal of suggesting further improvements in an already excellent State system of financing education. Consequently, to achieve this goal required dwelling on the funding provisions needing improvement rather than those which enabled New York State to have one of the best public educational systems in the country. To balance the critical posture taken in this report, the reader is directed to the booklet "What's Right With Education in New York State."

As an outgrowth of Study #1 and other major studies undertaken under Project 842, the New York State Board of Regents has made separate recommendations dealing with

further improvements in State aid provisions. These recommendations are contained in a booklet entitled "The Regents Proposal for Improving State Aid to Public Education in New York State."

John W. Polley
Robert E. Lamitie
Orlando F. Furno

New York State School
Finance Law Study Project

TABLE OF CONTENTS

		Page
FOREWORD		iii
LIST OF TABLES		vii
LIST OF FIGURES		viii
REPORT CONTENTS SUMMARIZED		ix
Chapter		
1	THE EFFECTS OF CURRENT OPERATING AID PROVISIONS	1
	Introduction	1
	The Expenditure Gap	4
	Increasing Expenditure Gap	6
	Wealth Determines Expenditures	7
	Equalization of Educational Opportunity Related to Equity to Taxpayers	13
2	CRITICAL IMPORTANCE OF THE FOUNDATION PROGRAM TO POOR DISTRICTS	19
	The Foundation Level Vs. Expenditure Level Gap	20
	Importance of the State Share of Total Costs	25
	State Control of Its Costs	28
	The Effect of Flat Grant Provisions	30
	The Effect of the Save Harmless Provision	31
3	THE EFFECT OF USING DIFFERENT VARIABLES IN VARIOUS STATE AID FORMULAS	33
	Use of Enrollment Vs. Attendance	33
	Expenditure, Wealth, And Payment Pupil Measures	36
	Aid for Pupils With Special Educational Needs	40

TABLE OF CONTENTS (Con't.)

Chapter		Page
	Secondary School Pupils With Special Educational Needs	41
	State Aid For Tuition Purposes	41
	Severely Handicapped Children	43
	Adjusting the Formula For Changes in Full Valuation	45
	The Effects of Growth Aid	47
4	THE PUPIL TRANSPORTATION PROGRAM	49
	The Effect of State Aid For Pupil Transportation	51
	Inequity and Manipulation of Pupil Transportation Formula	51
	Effects of State Aid For District Owned, Contract and Public Service Pupil Transportation	53
	Economy Discouraged in Pupil Transportation	55
Appendix		
A	List of Project 842 Major Studies and Occasional Papers	57

LIST OF TABLES

Table		Page
1	Variations in Current Operating Expense Per Pupil, 1975-76	5
2	Number of Pupils Educated At Various Levels of Expenditures, 1975-76	6
3	Current Operating Expense Per Pupil Variations Among School Districts 1968-77	7
4	Distribution of Wealth Among New York State Local School Districts, 1975-76	9
5	Relationship Between Wealth and Expenditure Level in New York State Local School Districts, 1975-76	13
6	Relationship Between Equalization Aid and Property Tax Relief, 1961-1976	15
7	Number of Districts in the Lowest and Highest Deciles in Wealth Which Were Spending At Levels 25 Percent Or More Above the Foundation Level	23
8	Tax Rates Needed To Provide a Foundation Program Equal To the Statewide Average Expenditure, 1977-78	24
9	State Share Of School Costs Related To Expenditure Level Gap in Local School Districts, New York State, 1969-1977	27
10	Distribution of Severely Handicapped Children, 1975-76	44
11	Severely Handicapped Costs Per Pupil 1975-76 (Average)	44
12	Severely Handicapped Costs Per Pupil 1975-76 (Range)	45
13	Scope of Pupil Transportation Program In New York State, 1975-76 (Exclusive of New York City)	49
14	Total Expenditures and State Aid For Pupil Transportation Program in New York State, 1971-72 To 1975-76	50

LIST OF TABLES (Con't.)

Table		Page
15	Equalized Full Property Tax Rate To Provide Local Share of Pupil Transportation Costs, 1975-76	52
16	Number Districts Using Various Modes of Pupil Transportation, 1974-75	53
17	Expenditures and State Aid For Pupil Transportation Related to Mode of Operation (Exclusive of New York City)	55

LIST OF FIGURES

Figure		
1	Trend in the Expenditure Level Gap in New York State	8
2	The Percent of School Districts in New York State at Various Wealth Levels, 1976	10
3	The Relationship Between Wealth and Expenditure in New York State, 1975-76	11
4	The Relationship Between Professional Staff Ratios and Wealth in New York State, 1975-76	12
5	The Local Property Tax (in mills) Necessary to Finance a $1,600 Per Pupil Foundation Program, With and Without a $360 Per Pupil Flat Grant, at Different Wealth Levels	18
6	Trend in Total Expenditures for Public Education in New York State Expressed in Current and Constant Dollars (CPI, 1969 = 100)	21
7	Trend in Total State Aid for Public Schools in New York State Expressed in Current and Constant Dollars (CPI, 1969 = 100)	22
8	Trend in State Aid as a Percent of Total Expenditures for Public Education in New York State, 1968 - 1978	26

REPORT CONTENTS SUMMARIZED

Chapter		Page
1	THE EFFECTS OF CURRENT OPERATING AID PROVISIONS	1

The Operating Aid Formula as a whole, together with the fact that the 705 districts of the State are dependent on the property tax for local revenues, is a direct cause of the substantial inequalities that exist in school services.

There is a very great gap in expenditures per pupil between property rich and property poor school districts.	4
The gap has been increasing every year since 1968.	6
The gap represents very substantial differences in services available to students.	7
Differences in expenditure are primarily related to the property wealth of school districts.	7
A large proportion of the State aid now paid goes not for the purpose of equalization of opportunity but rather for the purpose of property tax relief.	13

2	CRITICAL IMPORTANCE OF THE FOUNDATION PROGRAM TO POOR DISTRICTS	19

In addition to the effect of the formula as a whole on the expenditure gap, certain specific features of the formula contribute directly to increasing the gap.

The low level of the foundation program as compared to average expenditures in the State has the effect of making it completely impossible for poor districts to spend at even the average expenditure level.	20
The flat grant provision gives aid to districts which according to the formula don't need it and thereby tends to increase the expenditure gap.	30
The save harmless provision is anti-equalizing; it provides more aid to rich districts than poor ones.	31

Chapter | Page

3 THE EFFECT OF USING DIFFERENT VARIABLES IN VARIOUS STATE AID FORMULAS 33

There are other features in formula which create obvious inequities and distortions in aid -- some of which are closely related to wealth and thereby further tend to increase the expenditure gap.

The use of attendance rather than enrollment in pupil counts represents an inaccurate and distorted measure of the true cost burden imposed by the pupils counted. Enrollment would be a far more accurate reflection of true cost burden and therefore of need for aid. Because school attendance is closely related to social-class status, this distortion in the formula acts primarily to the advantage of school districts with higher average levels of social-economic status of people in the community and against those with lower status. 33

The use of three different pupil counts for expenditure, wealth, and payment is a needless complication with varied effects on districts. The chief inequity is on districts with higher numbers of weighted pupils who appear wealthier than they should and therefore receive less aid than they would under a single count related to the cost burden. This multiple pupil count also causes a hardship to districts generally of below average wealth, who spend less than the State average but above the foundation level. A single count would make more of their costs aidable. 36

Compensatory Education Aid per pupil under the PSEN formula varies by 300 percent among districts in the state based on wealth. While this is appropriate for general aid it would be more appropriate for such categorical aid to be uniform and thereby to provide more uniform provisions for the additional educational needs of these pupils. The present provision discriminates against PSEN pupils in average or wealthy districts. 40

In theory school districts receive extra aid for compensatory education programs for "Pupils with Special Educational Needs." (PSEN). However, in the case of secondary pupils, this aid, is in effect deducted from the aid that districts would receive anyway 41

Chapter		Page
	under the "secondary weighting." This provision discriminates against districts with more PSEN pupils and therefore, on the average it discriminates against school districts with lower than average socio-economic status of their population.	
	In the case of pupils who reside in one district and attend school in another on tuition contracts, state aid is paid to the district in which they reside. It would be more equalizing to pay aid to the districts of residence. Small wealthy districts frequently send pupils out to high school in larger and poorer districts. The state aid for such pupils should be at rates appropriate to the wealthier districts of residence and not the poorer district of attendance.	41
	State aid for severely handicapped children is paid on several different formulas resulting in marked differences in aid to support the education of similarily situated pupils depending on the kind of district in which they reside and whether they attend a public or a private school. This provision discriminates against those children on the less lucrative formulas and against the districts in which they live. It also discriminates against urban areas which tend to have more such pupils than do suburban and rural areas.	43
	The present formula causes Operating Aid to most school districts to be adjusted downward annually as a result of inflation. A simple correction could overcome this problem which has been the basic cause of the great increases in aid under the save harmless provision. As a result of save harmless, this problem acts especially severely against districts of lower wealth than against districts of higher wealth and is therefore a factor in increasing the expenditure gap.	45
	The growth correction forces all districts qualifying for this aid to recompute their aid in the year after it is received, causing problems of paperwork and of budgeting in order to make very minor aid recalculations.	47

Chapter		Page
4	THE PUPIL TRANSPORTATION PROGRAM	49

Transportation Aid as a whole is unequalized, complicated, subject to manipulation, requires perhaps more paperwork than all other State aids combined, and does not provide sufficient incentives for economical operation.

The formula is unequalized because all districts are paid aid amounting to 90% of approved costs. The tax rate to provide transportation varies among districts over 80 to 1. 51

Aid under the formula is subject to manipulation. It is possible for districts to obtain more aid by deliberately adopting routes and schedules of less than optimum efficiency which result in formula factors which increase aid. 51

Transportation provided by private contractors is aided on a more favorable basis than that provided on a publicly operated basis. 53

The formula is unduly complicated and requires massive paperwork which, as a practical matter, cannot be adequately checked and audited by the State. 54

Because of its non-equalized nature and because there is no relationship of aid to average costs, there is little incentive for economical operation. 55

CHAPTER 1

THE EFFECTS OF CURRENT OPERATING AID PROVISIONS

INTRODUCTION

The constitution of New York State requires that the Legislature shall "provide for the maintenance and support of a system of free common schools wherein all the children of this State may be educated." This provision clearly makes public education the responsibility of the State as a whole through the Legislature. The New York State Legislature long ago decided to share its mandate with local school boards for the operation of its public elementary and secondary schools. This report[1] evaluates how the State and its local school boards share this mandate, particularly in light of the following two important principles: (1) equal educational opportunity for each child or youth in the State, and (2) equity for the taxpayers of New York State.

An 1851 law had as its purpose "that the property

---

[1] It is important to point out that this report focuses on those State aid provisions under current law which require further improvements in the State's system of funding education. Of necessity, it downplays the numerous provisions which make New York State's system of financing education one of the best in the country. To counterbalance this, appropriate comments have been made in the Foreword of this report. The reader is directed to a publication "What's Right With Education in New York State."

of the State should pay for the education of its children." However, the purpose of this law was defeated in the implementation of its financial plan:

1. The State tax was set at a fixed amount which became less important as pupil attendance and costs rose over the years.

2. Heavy reliance was placed upon school district taxation, which because of the great variations in school district wealth created unequal expenditures per pupil over the years.

The State property tax for schools was in effect from 1856 to 1901 and initially had a substantial but benign influence on equalization and was abandoned in 1901. The State share of the cost for public education was 52 percent in 1852 and reached its lowest value at less than 10 percent in 1920.

An important decision in 1925 was a major cause of the present strong emphasis of State aid for property tax relief. A foundation program principle was adopted under which the State shared in the support of a basic minimum program in all school districts. Had the tax rate in that formula been established at approximately the State average level, only about half the school districts in the State would have received aid and all that aid would have gone for the purpose of equalization. Instead, when the law was revised in 1927, the tax rate was set at a level substantially below the State's average property tax rate for school purposes. Thus, more than half of the districts received aid for tax relief purposes. Since then, property

tax relief has been continued and in terms of dollars allocated, has increased as the major purpose of State aid for public education.

The Fleischmann Commission Report utilized this same method for estimating aid for equalization.[1] The Commission estimated that somewhere between 20 and 40 percent of school aid paid in 1972 was for equalization which meant that between 80 and 60 percent respectively was for purposes other than equalization.

It has never been the policy of the State to fully equalize the revenue capacity of its school districts. The result of this policy is now being contested in the courts of the State on the claim that such failure is a violation of the State constitution. The issue may soon be settled by the courts.

The State has recognized the problem of equalizing educational opportunities for a century and a quarter. During this period the State has tried in different ways to "equalize" educational opportunity by providing financial aid to school districts from State funds in such a manner that poor school districts receive more aid than wealthy ones, thereby decreasing the inequalities of revenue-raising ability among school districts.

The present operating aid formula is referred to

---

1 Manly Fleischmann, Chairman, Report of the New York State Commission on the Quality, Cost, and Financing of Elementary and Secondary Education, The State Education Department, Albany, New York, Volumes 1, 2, and 3, 1972.

as a millage or foundation program formula. New York State pioneered the foundation program concept in the 1920's, being the first State to adopt such a provision. Under a foundation program formula, the State shares in the cost of a basic minimum foundation program in all its school districts in such a way as to make it possible for all school districts to provide that minimum level of educational services at the same tax rate. Currently, the foundation program level is $1,400 per pupil and the required tax rate to support such a program in any district is $15 per $1,000 of full property valuation.[1]

The basic question addressed herein is whether or not New York's formula provides sufficient funds to all local school districts so as to comply with what is seen by the people of the State to be a fair and reasonable public policy in regard to equalization of educational opportunity.

THE EXPENDITURE GAP

Table 1 shows the variations in expenditures per pupil among the school districts of the State in 1975-76. It shows that the district of highest expenditure spent 5 times more dollars per pupil for educating its students than

---

[1] As will be seen below, the present formula enables all districts to provide a foundation program at this tax rate or less. A substantial number of districts can provide it at a lower tax rate, in fact, all districts with wealth greater than $93,333 per pupil can do so.

did the district spending the least dollars per pupil. The variation in expenditure among the middle 80 percent of districts in the State was $1,019 per pupil. In other words, the district at the 90th percentile spent 86 percent above the district at the 10th percentile.

TABLE 1

VARIATIONS IN CURRENT OPERATING EXPENSE PER PUPIL, 1975-76

PERCENTILE (1)	OPERATING EXPENDITURE PER PUPIL (2)
100	$4,393
90	2,209
75	1,770
50	1,406
25	1,279
10	1,190
0	834
Range	$3,559
Range of Middle 80 Percent of All Districts	$1,019

Table 2 shows the numbers of pupils educated at various levels of expenditure and is evidence again on the wide variation in expenditures per pupil in the State. The gap in expenditure per pupil has been increasing at a variable rate for over the past decade.

TABLE 2

NUMBER OF PUPILS EDUCATED AT VARIOUS LEVELS OF EXPENDITURES, 1975-76

APPROVED OPERATING EXPENSE PER PUPIL[a] AMOUNT (1)	PERCENTILE RANGE (2)	NUMBER OF PUPILS ENROLLED (3)
$2209 - 4393	90 - 100.0%	173,560
1770 - 2008	75 - 89.9	1,737,218[b]
1406 - 1769	50 - 74.9	705,351[c]
1279 - 1405	25 - 49.9	406,277
1190 - 1278	10 - 24.9	193,200
834 - 1189	0 - 9.9	131,500
	TOTAL	3,347,106

a. Refers to total aidable pupil units (TAPU).
b. Includes Buffalo, New York City, Rochester, and Yonkers.
c. Includes Syracuse.

INCREASING EXPENDITURE GAP

Table 3 shows the gap expressed as a percent since 1968 and demonstrates the increase in the expenditure level gap from 1968 to the present. Some persons feel that a gap in expenditures per pupil is justifiable if it is in proportion to the effort made by a community to support its schools; they consider it a measure of a district's willingness to support the education of its pupils with a high local tax effort. However, the current and growing degree of disparity

in expenditures per pupil in New York State works against the basic principle of equal opportunity for all pupils. Figure 1 depicts the expenditure level gap in New York State.

TABLE 3

CURRENT OPERATING EXPENSE PER PUPIL

VARIATIONS AMONG SCHOOL DISTRICTS, 1968-77

YEAR (1)	PERCENTILE AMOUNT AT 10th (2)	AT 90th (3)	INTER-PERCENTILE RANGE (4)	PERCENT VARIATION (5)
1976-77(est)	$1,264	$2,467	$1,203	95%
1975-76	1,190	2,209	1,019	86
1974-75	1,088	2,044	956	88
1973-74	978	1,820	842	86
1972-73	931	1,649	718	77
1971-72	890	1,549	659	74
1970-71	856	1,454	598	70
1969-70	790	1,305	515	65
1968-69	755	1,164	409	54

WEALTH DETERMINES EXPENDITURE

Table 4 shows a variation of local school district wealth of 40 to 1. Table 5 shows that the property wealth of the school district is the principal determiner of its

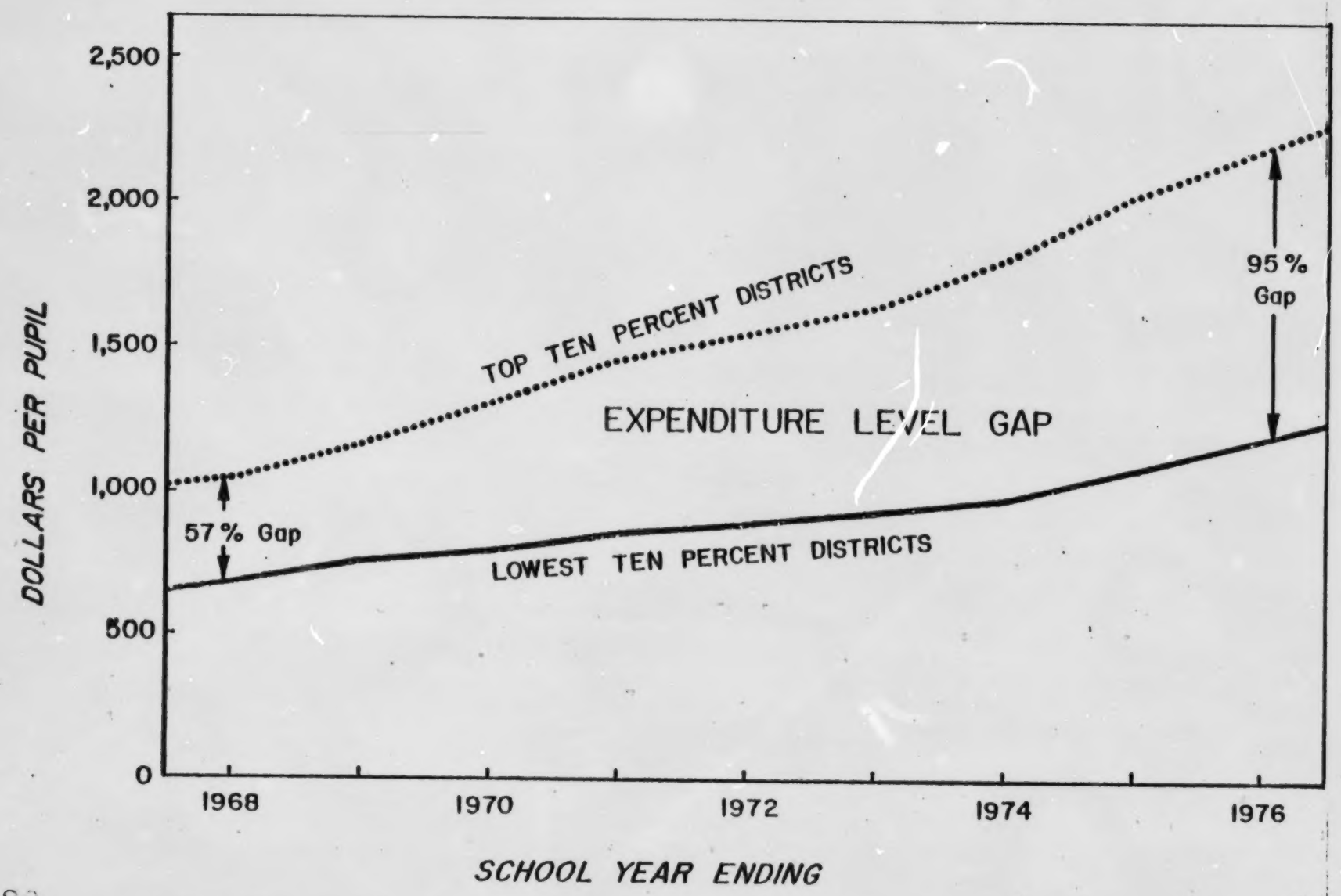

FIGURE 1. Trend in the Expenditure Level Gap in New York State.

level of expenditure. Districts with the lowest valuation per pupil provide the lowest level of expenditures per pupil and vice versa. In other words, the current operating aid formula in New York State has reduced discrepancies in expenditures per pupil from the approximately 40 to 1 that could be expected to exist if there were no State aid, to a range of 3 to 1. This range is primarily related to the property valuation per pupil of the respective districts. Figure 2 shows the percent of school districts in New York State at various wealth levels. Figure 3 depicts the effects of wealth differences on per pupil spending; and Figure 4 portrays the effects of wealth differences on staffing ratios.

TABLE 4

DISTRIBUTION OF WEALTH AMONG NEW YORK STATE LOCAL SCHOOL DISTRICTS,[a] 1975-76

PERCENTILE VALUE (1)	WEALTH[b] (2)	PERCENTILE VALUE (3)	WEALTH[b] (4)
100	$458,992	25	$ 29,704
90	92,406	10	23,100
75	60,922	0	10,456
50	40,684		
Range			$448,536
Range of the Middle 80 Percent of All Districts			$ 69,306

a. Read this table as follows: Top 10 percent of districts have values from $92,406 to $458,992; next 15 percent have values from $60,922 to $92,406; half the districts lie above $40,684 and half below; three-fourths are above $29,704, one-fourth below, etc.

b. Wealth is measured by 1975 Full Valuation per 1975-76 Resident Weighted Daily Attendance Unit.

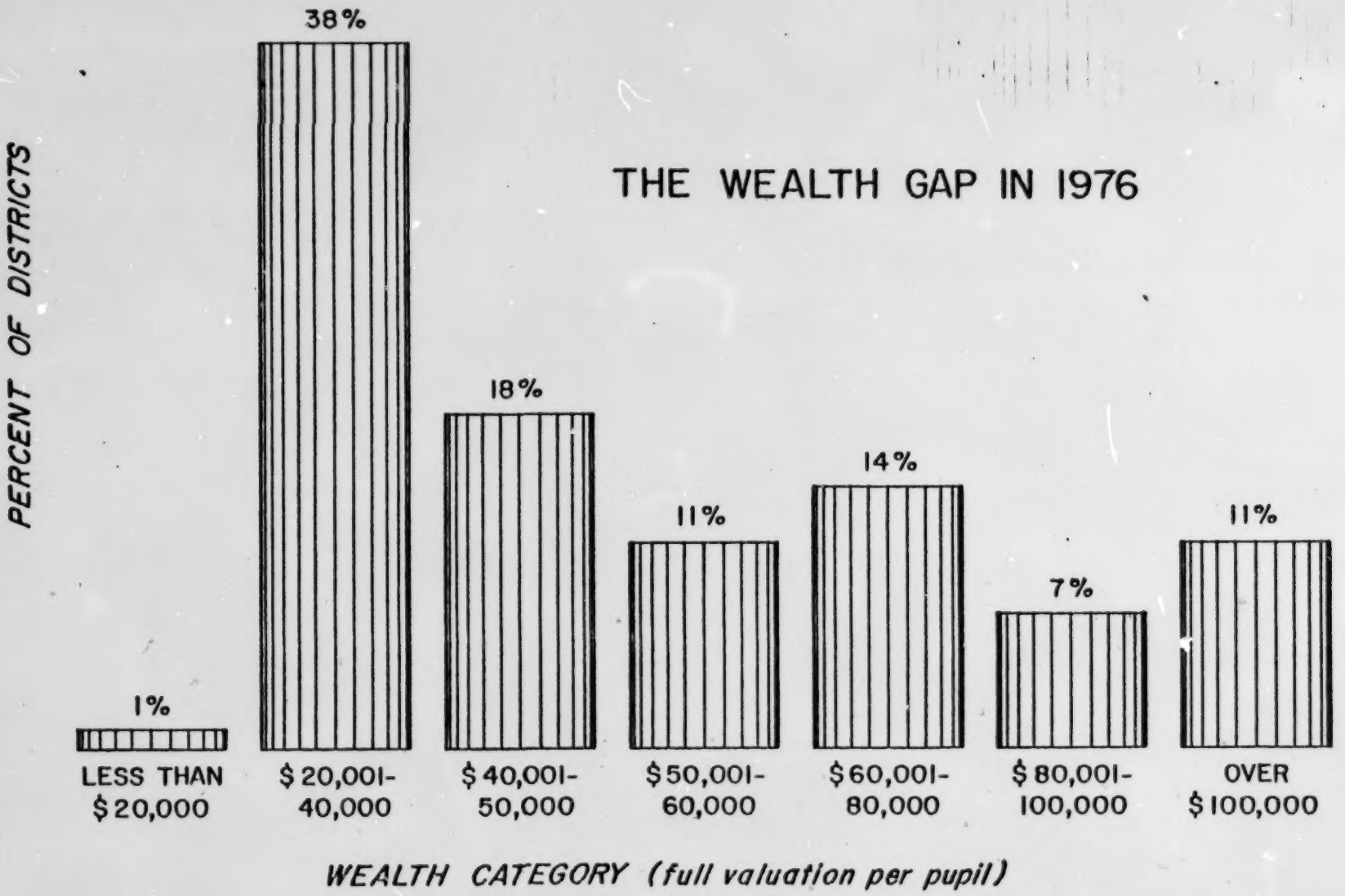

FIGURE 2. The Percent of School Districts in New York State at Various Wealth Levels, 1976.

EFFECTS OF WEALTH DIFFERENCES ON SPENDING PER PUPIL, 1975-1976

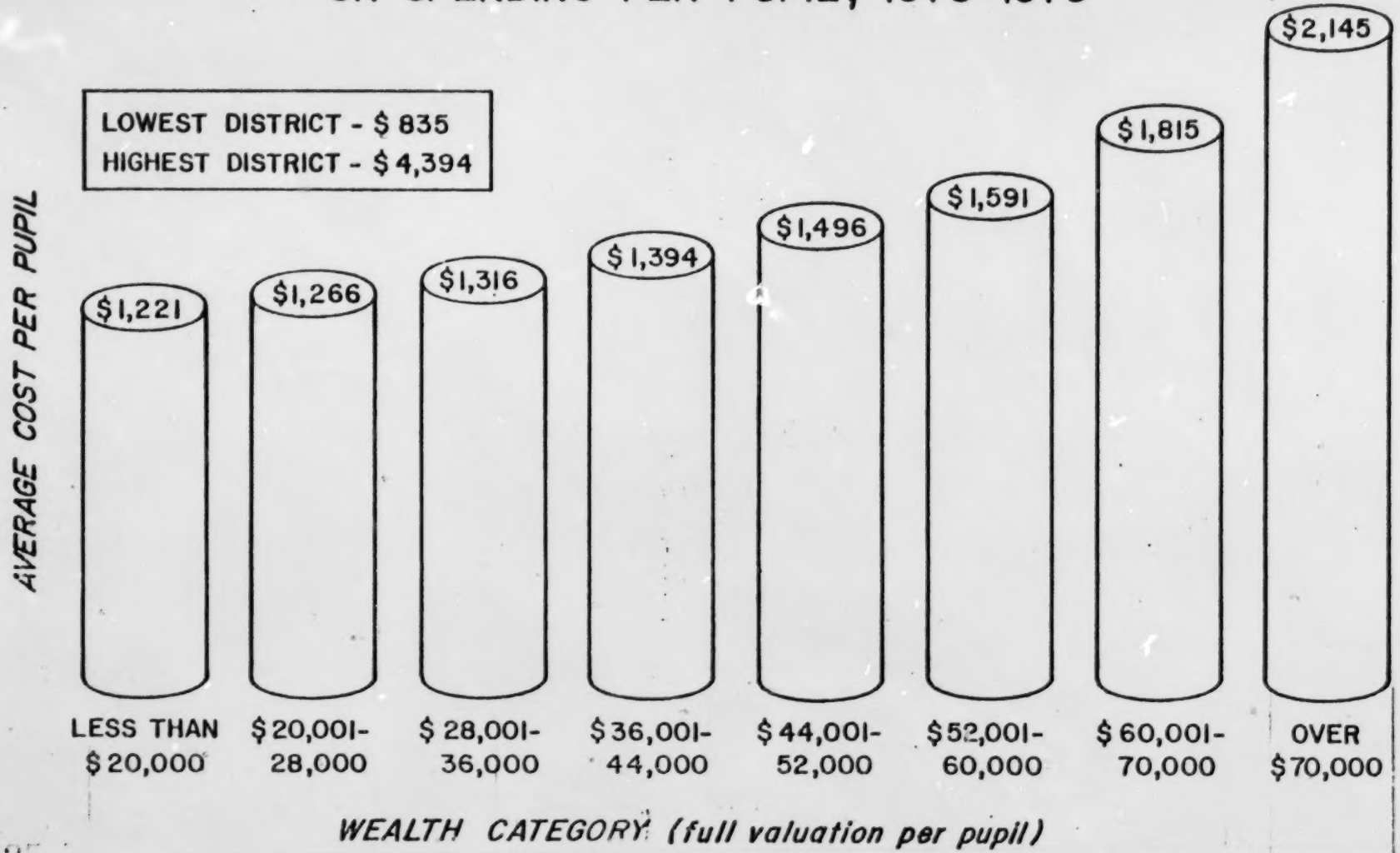

FIGURE 3. The Relationship Between Wealth and Expenditure in New York State, 1975-76.

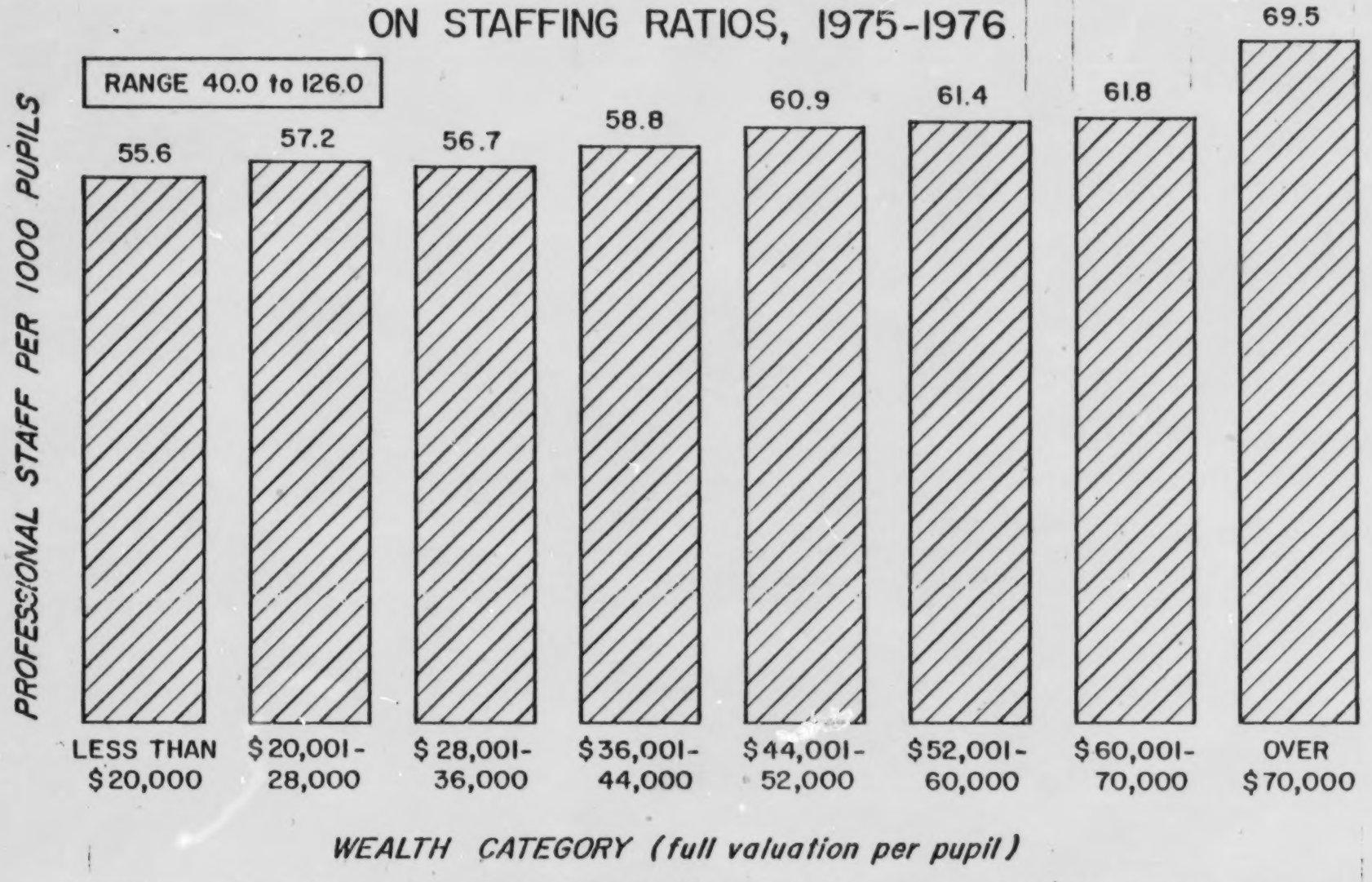

FIGURE 4. The Relationship Between Professional Staff Ratios and Wealth in New York State, 1975-76.

TABLE 5

RELATIONSHIP BETWEEN WEALTH AND EXPENDITURE LEVEL IN NEW YORK STATE LOCAL SCHOOL DISTRICTS, 1975-76

WEALTH[a] (1)	EXPENDITURE LEVEL[b] (2)
Over $72,000	$2,145
60,000 - 72,000	1,815
52,000 - 60,000	1,591
44,000 - 52,000	1,496
36,000 - 44,000	1,395
28,000 - 36,000	1,316
20,000 - 28,000	1,266
Under 20,000	1,221

a. Wealth refers to 1975 Full Valuation per 1975-76 Resident Weighted Daily Attendance Unit.
b. Expenditure Level refers to approved operating expense per total aidable pupils.

EQUALIZATION OF EDUCATIONAL OPPORTUNITY RELATED TO EQUITY TO TAXPAYERS

Determining the portion of State aid that goes for equalization purposes is not something that can be done on an objective basis since its calculation involves certain assumptions. The basic method was developed by Mort[1] in the early

1 Paul R. Mort, Walter C. Reusser and John W. Polley, Public School Finance, New York, New York: McGraw Hill Co., 1960, pp. 239 ff.

1930's. He described the options available for those who wish to calculate the aid going for equalization vs. other purposes. He pointed out that the simplest assumption would be to assume that equalization aid could only go to districts of below average wealth and that aid to districts of higher than average wealth was for some other purpose. However, the alternative assumption which Mort used in most of his later writings considered that equalization aid could go to districts above average wealth but only up to the "largest wealthy district" which he referred to as the "key district." Under this assumption a larger portion of State aid goes for the purpose of equalization than under the alternative assumption based on equalization aid going only to districts whose wealth is below that of the State's average wealth.

Based on the "key district" assumption, and using New York City as the key district, Table 6 shows that the portion of State aid calculated for the purpose of equalization varied from 31 to 44 percent. In 1975-76 only 39 percent of State aid contributed to the equalization of educational opportunity.

Table 6, also, shows that between 56 and 69 percent of total State aid to local school districts has gone for purposes other than equalization during the past 15 years, or for property tax relief. While some of this other portion of State aid is for such unequalized categorical aid as transportation, most of it went for property tax relief. The indirect result, of course, of the current formula for

TABLE 6

RELATIONSHIP BETWEEN EQUALIZATION AID AND PROPERTY TAX RELIEF, 1961-1976

YEAR ENDING (1)	FORMULA APPORTIONING TOTAL STATE AID AS A PERCENT OF EQUALIZATION AID (2)	FORMULA APPORTIONING TOTAL STATE AID AS A PERCENT OF TAX RELIEF AID (3)
1976	39%	61%
1975	31	69
1974	41	59
1973	41	59
1972	43	57
1971	41	59
1970	38	62
1969	36	64
1968	41	59
1967	44	56
1966	44	56
1965	43	57
1964	41	59
1963	35	65
1962	42	58
1961	41	59

NOTE: Equalization Aid = $S - (K)(V_s/V_k)$ in which S refers to Total State aid; K, aid to Key District which in this case was aid to New York City; V_s, wealth of entire State, and V_k is the wealth of the Key District.

operating aid has been to enable wealthy school districts to maintain high per pupil expenditure levels at lower tax rates.

Because of the unpopularity of the property tax and the widespread belief that it is a regressive tax,[1] the pro-

[1]This belief is now being challenged by some scholars who conclude that the property tax is regressive only at low income levels and that it is proportional or progressive at higher income levels.

perty tax relief aspect of State aid has always been popular in the State Legislature. State aid formulas in New York have always been amenable to property tax relief by either adjusting the required tax in a millage formula (foundation program type) or by adjusting the State's participation ratio in an aid-ratio type formula.

An analysis of 1975-76 aid based on the assumption that any aid to districts above average wealth is for purposes other than equalization, results in an estimated percentage of equalization aid of 39 percent and of aid for purposes other than equalization of 61 percent. The information reported herein shows the great impact on equalization that could be achieved if the State were willing to devote all or nearly all of its aid for the purpose of equalization. Redistribution of aid on the basis of the equalization principle could have a major effect on the expenditure gap at both ends of the expenditure spectrum. By reducing the State aid which wealthy districts currently receive for the purpose of property tax relief, wealthy districts would not be able to spend at higher and higher levels by imposing only moderate tax rate increases. Conversely, the funds made available to poor districts for equalization purposes would be a major factor in enabling them to have higher spending levels. In effect, the State would make it possible for poorer districts to increase their expenditure levels faster than wealthy districts.

The expenditure gap evidenced in Table 3 can be

reduced by the State increasing its percentage of State Aid allocated for the purpose of equalization. This could be done by increasing the expenditure level, the required tax rate, or both in a millage or foundation formula. For example, setting the formula tax rate at the State average would reduce aid to wealthier districts by roughly a billion dollars, thereby making that amount available to poorer than average districts at no increase to the State above present State aid costs.[1] Figure 5 depicts the relationship between local property tax rate necessary to finance a $1600 per pupil foundation program (with and without a $360 per pupil flat grant) and wealth.

---

[1] For further discussion of ways in which equalization could be substantially increased without increase in cost to the State, or even with a decrease in cost to the State, see "Comparing Formulas for Their Effects on Achieving Equalization of Educational Opportunity in New York State" - mimeographed memorandum, State Education Department, Office of Educational Finance Research Services, May 1977.

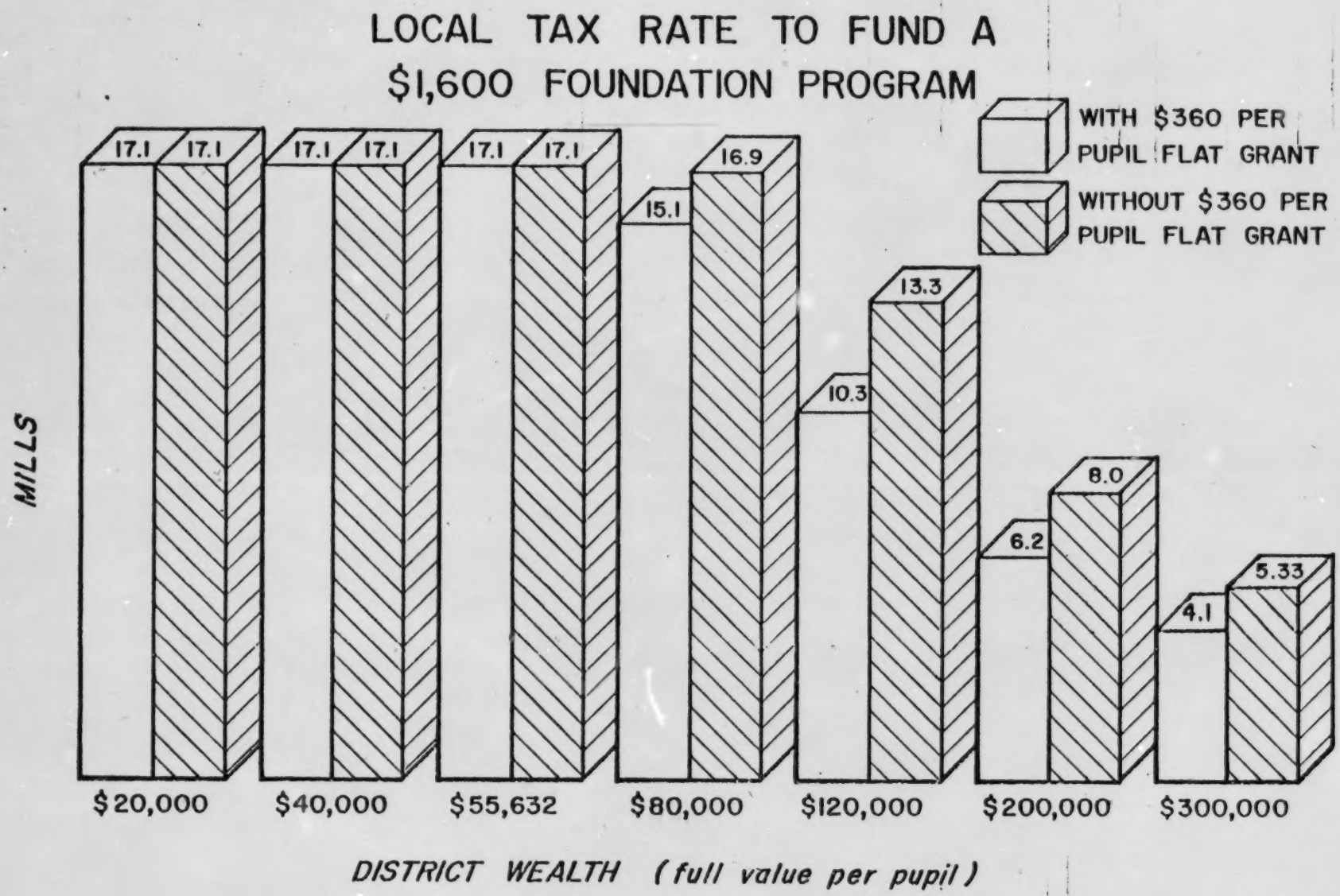

FIGURE 5. The Local Property Tax (in mills) Necessary to Finance a $1,600 Per Pupil Foundation Program, With and Without a $360 Per Pupil Flat Grant, at Different Wealth Levels.

CHAPTER 2

CRITICAL IMPORTANCE OF THE FOUNDATION PROGRAM TO POOR DISTRICTS

The idea of guaranteeing every school district, and by implication, every pupil, a minimum foundation level of expenditure was an important breakthrough when first adopted by New York State in the 1920's.[1] Writers[2] on school finance have repeatedly emphasized that the principle is meaningless if the minimum level guaranteed by the State is not an adequate one. They argue that most states with foundation programs have failed to keep up with inflation, resulting in a guarantee much below an adequate program for pupils in low wealth districts.

In States with foundation programs, including New York, legislators have been reluctant to provide for automatic increases in formulas, whether based on an index of price changes or on improvements made in the average educational program provided. They have preferred to adjust formulas with current evidence before them. Reluctance to automatic formula adjustments has come about because of the

---

1 George D. Strayer and Robert M. Haig, The Financing of Education in the State of New York. Report of the Educational Finance Inquiry Commission, New York, 1924, pp. 173-175.

2 The Fleischmann Commission Report, e.g., Chapter 2, Appendix 2-C, "The Strayer-Haig Formula and the Morrison Approach to Education Finance."

notion that automatic formula adjustments automatically increase State costs. Recent techniques, such as those used in Oregon and Kansas,[1] provide the Legislature with the options of increasing State aid or of maintaining State aid at a previous level. The need to adjust formulas for the eroding effects of inflation on the purchasing power of the educational dollar is graphically depicted in Figures 6 and 7.

THE FOUNDATION LEVEL VS. EXPENDITURE LEVEL GAP

As a means of demonstrating the critical importance of the foundation program in low wealth districts, a study was made of the number of districts in the lowest and in the highest deciles in wealth in New York State in selected years from 1962-63 to 1975-76.

Table 7 shows the number and percent of such districts which were spending at levels of 25 percent or more above the foundation level for selected years. It shows that the number and percent of low wealth districts able to achieve such an expenditure level has always been small and the number of high wealth districts able to do so has always been large. In 1975-76, no low wealth districts whatsoever were able to achieve that level of expenditure while 97 percent of the high wealth districts did so. The following paragraphs explain the reasons for this result.

---

[1]Darwin W. Daicoff, "An Analysis of the Kansas School District Equalization Act of 1973," Selected Papers in School Finance 1976, United States Office of Education, Washington, D.C.

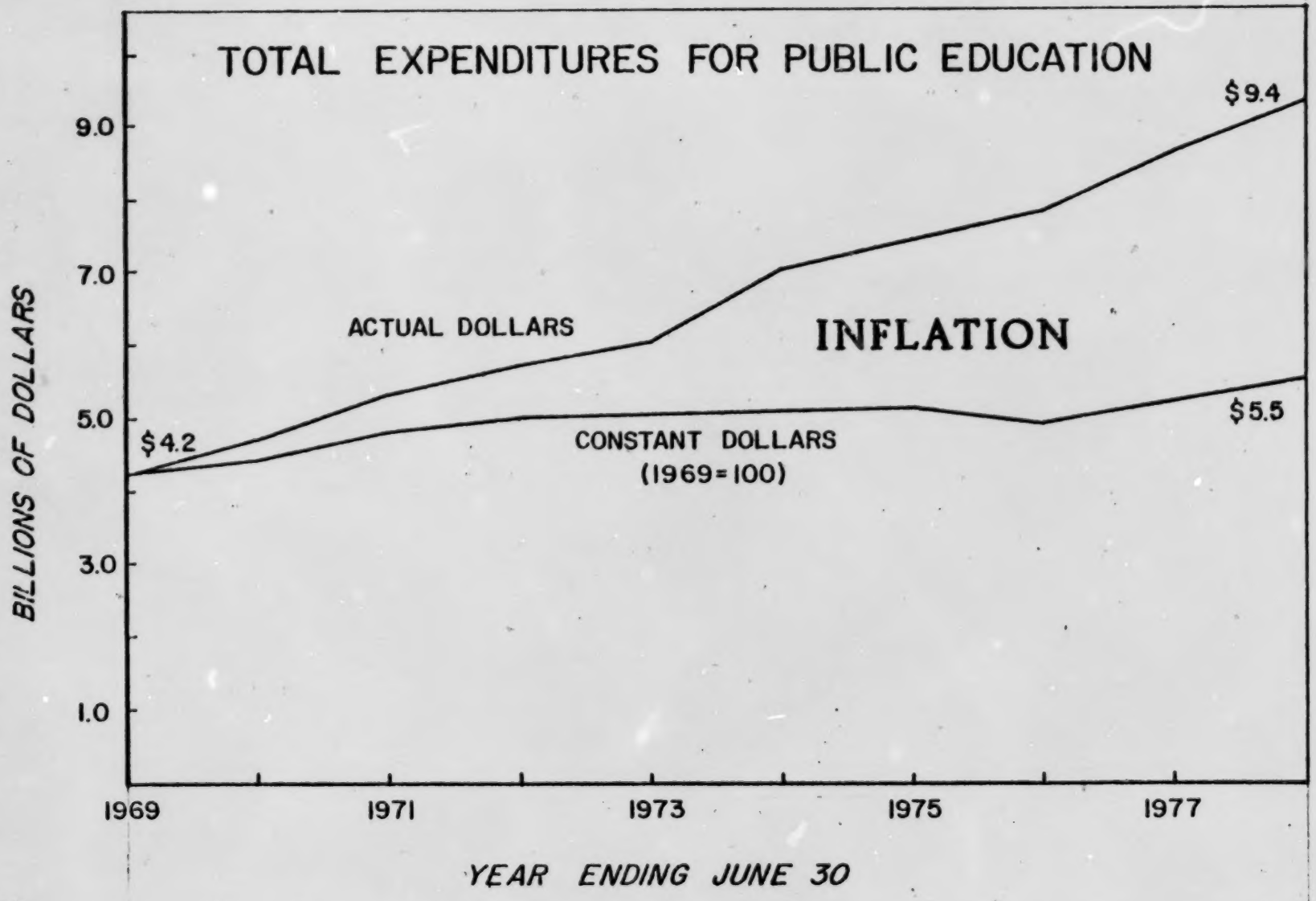

FIGURE 6. Trend in Total Expenditures for Public Education in New York State Expressed in Current and Constant Dollars (CPI, 1969 = 100).

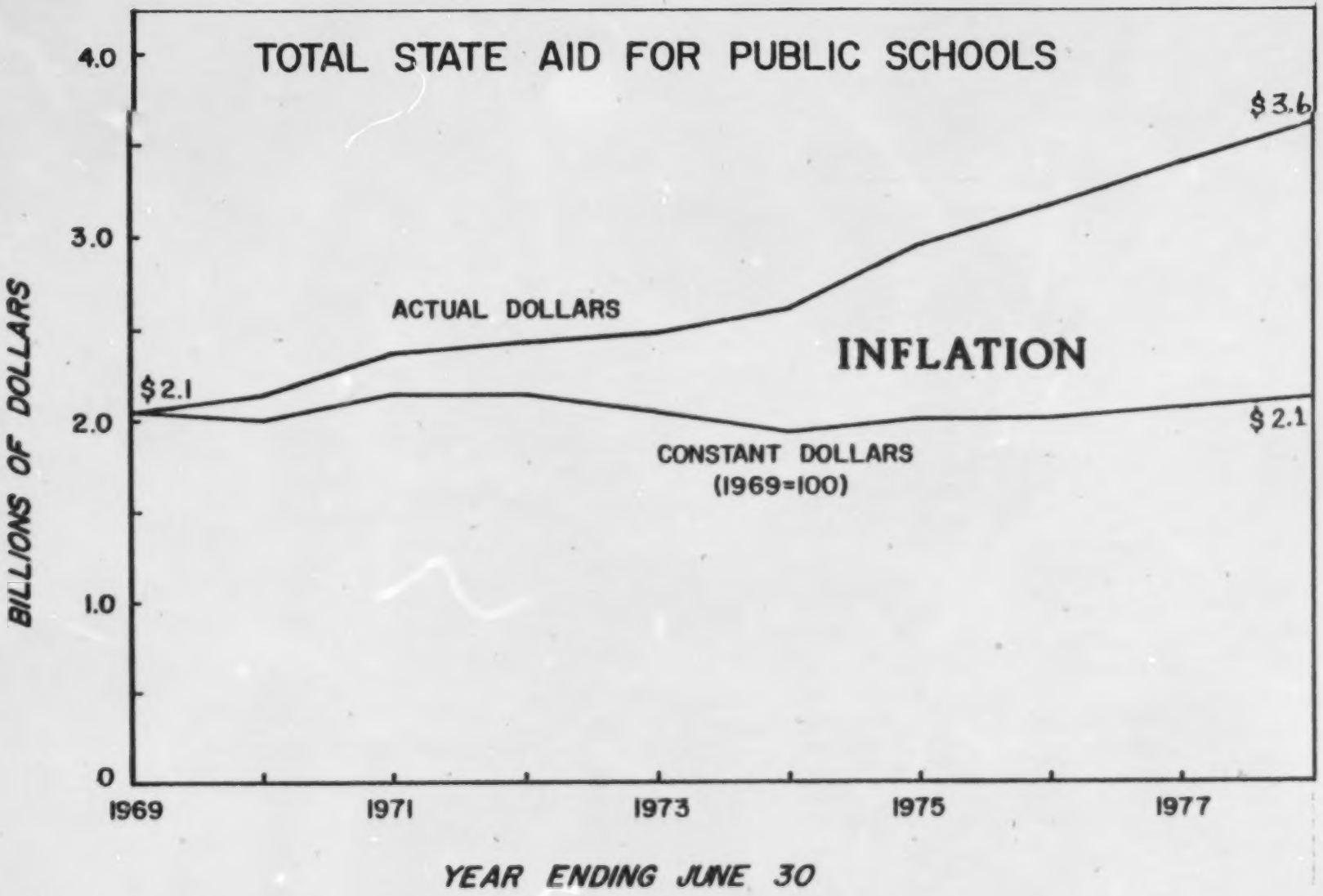

FIGURE 7. Trend in Total State Aid for Public Schools in New York State Expressed in Current and Constant Dollars (CPI, 1969 = 100).

TABLE 7

NUMBER OF DISTRICTS IN THE LOWEST AND HIGHEST DECILES IN WEALTH WHICH WERE SPENDING AT LEVELS 25 PERCENT OR MORE ABOVE THE FOUNDATION LEVEL[a]

YEAR	DISTRICTS MORE THAN 25 PERCENT ABOVE FOUNDATION PROGRAM LEVEL			
	LOWEST WEALTH DECILE		HIGHEST WEALTH DECILE	
	No.	Percent	No.	Percent
(1)	(2)	(3)	(4)	(5)
1975-76	0	0	68	97
1974-75	2	3	57	85
1970-71	2	3	60	90
1965-66	0	0	47	70
1962-63	3	5	57	84

a. Table to be read: Of districts in the lowest ten percent in wealth, none had an expenditure level greater than 1.25 times the State's foundation level of $1200 per pupil in 1975-76 compared to 68 districts, or 97 percent, in the highest ten percent in wealth.

The current millage or foundation program formula focuses on supporting a minimum expenditure level. In 1976-77, this level was $1200 per pupil and it was increased to $1400 per pupil in 1977-78. School districts which desire to exceed the minimum expenditure level must do so entirely on local effort. To demonstrate the importance for low wealth districts of the guaranteed expenditure level in a foundation program millage formula consider the following situation: What tax effort must local districts make to achieve a State-

wide average expenditure level of $2299 in 1977-78 based on the current $1400 per pupil formula? In Table 8, a low wealth district ($23,000 per pupil), needs to levy a tax rate of $54.09 per $1000 full property valuation to achieve a $2299 per pupil program in contrast to $21.03 for a district with $92,000 per pupil in wealth -- 2.6 times greater effort. The low wealth district must increase its tax rate $39.09 compared to $9.77 for the high wealth district. This analysis clearly explains the exorbitant tax rate increase

TABLE 8

TAX RATES NEEDED TO PROVIDE A FOUNDATION PROGRAM EQUAL TO THE STATEWIDE AVERAGE EXPENDITURE, 1977-78

WEALTH (FULL PROPERTY VALUATION PER PUPIL)		TAX RATE NEEDED TO PROVIDE A $1400 PER PUPIL PROGRAM	TAX RATE NEEDED TO PROVIDE A $2299 PER PUPIL PROGRAM	INCREASE IN TAX RATE
Amount	Percentile			
(1)	(2)	(3)	(4)	(5)
$92,000	90th	$11.26	$21.03	$ 9.77
61,000	75th	15.00	29.74	14.74
41,000	50th	15.00	36.93	21.93
30,000	25th	15.00	44.97	29.97
23,000	10th	15.00	54.09	39.09

NOTE: In 1977-78, the State average expenditure per pupil was estimated to be $2,299 per pupil. Col (5) is obtained by subtracting Col (3) from Col (4) and represents the increase in the tax rate for a district of given wealth to provide $2,299 per pupil rather than $1,400 per pupil.

that poor districts must levy to go beyond the State's minimum foundation program -- in the instance given to achieve the State average expenditure level of $2,299 per pupil. This is one of the reasons that some districts have banded togeth er in the Levittown case to claim that the present formula denies them equal protection.

IMPORTANCE OF THE STATE SHARE OF TOTAL COSTS

Various writers, perhaps most notably Alan Hickrod,[1] have commented on the relationship between the state share of total costs and the adequacy of programs supported by the state. Hickrod found a positive relationship as he studied the programs of various states, both at a fixed data and over a period of time.

This relationship has certainly been illustrated in New York State in the past decade. The expenditure gap was at its minimum at the time the State's share of total public school operating costs was at its maximum (see Table 9). The increase in the expenditure gap in New York State has occurred during the same period of years as the State's share of total public school costs has been declining. Figure 8 portrays State aid as a percent of total expenditures for public education.

---

[1] See B. Alan Hickrod, The 1973 Reform of the Illinois General Purpose Educational Grants in Aid. Chapter 2. "Literature Regarding Criteria For the Evaluation of State Education Grants - in Aid." Normal, Illinois: Illinois State University.

STATE AID AS A PERCENT OF TOTAL EXPENDITURES FOR PUBLIC EDUCATION

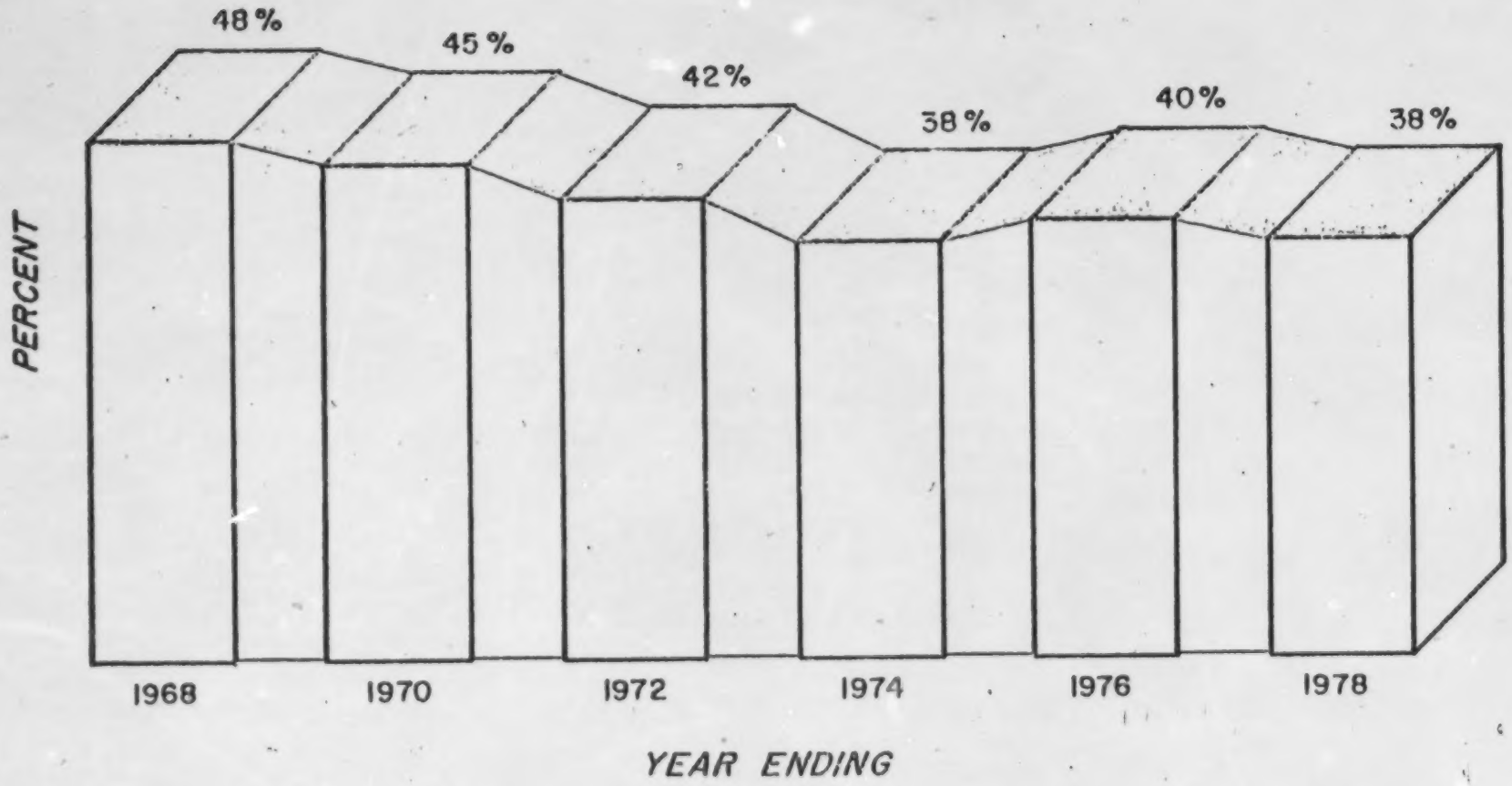

FIGURE 8. Trend in State Aid as a Percent of Total Expenditures For Public Education in New York State, 1968 - 1978.

TABLE 9

STATE SHARE OF SCHOOL COSTS RELATED TO EXPENDITURE LEVEL GAP IN LOCAL SCHOOL DISTRICTS, NEW YORK STATE, 1969-1977

YEAR ENDING (1)	STATE SHARE[a] (2)	EXPENDITURE LEVEL GAP[b] (3)
1978(est.)	38%	97%
1977	39	95
1976	40	86
1975	40	88
1974	38	86
1973	41	77
1972	42	74
1971	44	70
1970	45	65
1969	48	54

a. State Aid as percent of total expenditure for public elementary and secondary education.

b. Difference between 10th and 90th percentiles of district expenditure level divided by expenditure level at 10th percentile converted to a percentage. Data contained in Table 3.

Theoretically, this relationship need not be so strong, because the State could substantially close the expenditure gap by adopting a more strongly equalizing formula and paying a greater share of its aid to poor districts and a smaller share to wealthy districts. The political reality has made closing the expenditure level gap very difficult in New York and other States.

STATE CONTROL OF ITS COSTS

At least two States, Oregon and Kansas, have apparently solved the problem of maintaining the State supported program at an adequate level from year to year while avoiding a constant escalation of State costs.

The Oregon approach illustrates the plan used by both of these States. Oregon has had in effect for over 20 years a foundation program formula whereby the level of the State supported foundation program is automatically increased annually by the percentage by which the average expenditure per pupil in the State increased in the prior year. However, to avoid this increase in foundation level, causing an automatic escalation of State costs, the Oregon law provides that the total amount of funds to be used to pay foundation program aid is determined annually by the Legislature by appropriation. Then, using the newly adjusted foundation program ceiling, calculations are made to determine what will be the required tax rate in the formula.

Thus, if the New York State Legislature in a given year chooses not to increase the total State aid appropriation, aid to poor districts will be increased at a level enabling them to maintain approximately the new foundation level. However, because such an appropriation would require a higher tax rate in the formula than in the prior year, aid to wealthy districts in the State would be decreased. This feature enables the State to control its costs, provides a

minor restraint on the ability of wealthy districts to escalate their costs, and puts a damper on increasing the expenditure level gap.

Of course, the New York State Legislature in any given year may increase the appropriation sufficiently so that the tax rate in the foundation formula can be reduced, thereby providing increases in aid to all districts, including the wealthy ones. Over the 20 years that the formula has been in effect, the net effect has been to increase the tax rate, thereby indicating that over the full period, the Legislature has not allowed the State's costs to escalate at the same rate as that of the foundation program. Thus, the State has exercised long-term controls over costs with a resulting salutary effect on the equalization aid provided.

Kansas has a similar provision, although its State aid formula is not of the millage formula type. Each year after the State Legislature determines its appropriation, the local millage rate is adjusted. The Kansas law illustrates that the principle involved in the Oregon plan can be applied to any kind of a State formula. Therefore, the problem of enabling poor districts to maintain adequate programs in the face of inflation and other pressures on costs, can be accomplished without a blank check being signed by the Legislature of the State. Such an approach should be of interest to individuals in New York State concerned with financing public schools.

THE EFFECT OF FLAT GRANT PROVISIONS

Ever since the adoption of the original foundation program formula in New York State, a minimum amount of aid has been provided to every district, whether or not such district qualifies for aid under the basic formula. Currently the minimum aid is $360 per pupil.

The present formula makes it possible for all districts to provide the minimum foundation program, currently $1400 per pupil, at the same tax rate, currently $15 per $1000 of full property valuation. Expenditures above the $1400 per pupil level are entirely supported from local resources.

Under this formula, some districts receive only the minimum flat grant. The current formula could be changed to eliminate the flat grant or even to recapture monies from some wealthy districts. Under a negative aid provision (recapture) a district could be required to pay to the State the excess over $1400 per pupil that they raise with a 15 mill property tax. These funds could be made available for redistribution to poorer districts.

On the current formula, District A with wealth of $93,333 per pupil raises exactly $1400 per pupil, and therefore would not qualify for any State aid under the millage part of the basic formula. District B with wealth of $186,666 per pupil (a wealth level which is exceeded by 17 districts) raises $2800 per pupil with a $15 tax. If the recapture

provision were adopted, District B would pay the $1400 per pupil above the formula $1400 per pupil to the State for use in equalizing programs in other districts. Instead, both Districts A and B under current law would receive the minimum aid of at least $360 per pupil. As evidenced in Table 8, a very wealthy district would support the foundation program at lower than the 15 mill tax rate implied in the formula. For example, a district with $186,666 per pupil in wealth would need to levy only $7.50 per $1000 full property valuation to raise $1400 per pupil.

THE EFFECT OF THE SAVE HARMLESS PROVISION

The original purpose of save harmless aid was to protect districts from extreme effects of declining State support. In 1977-78, some 366 districts out of 705 (34 percent), with 1,979,911 pupils (59 percent of the pupils in the State) will receive an estimated $95.9 million of save harmless aid (4 percent of all operating aid). This $95.9 million, if used to increase the State's $1400 per pupil foundation program, could have raised this ceiling to $1463 per pupil.[1]

Save harmless aid primarily benefits those districts that have had increases in full valuation of property,

---

[1] State Education Department Memorandum, "Analysis of 1977-78 Save Harmless Provisions of State Aid to New York State School Districts," page 2 (Undated).

declining enrollment, or both. It generally follows a rather distinct geographical pattern, the highest amounts tending to be in (1) counties in the New York City suburban area and (2) rural areas outside the New York City Metropolitan Area where land values have increased most dramatically.

The ten counties with the highest percentage of total operating aid in 1977-78 due to the save harmless provision are: Sullivan, Columbia, Rockland, Essex, Nassau, Delaware, Greene, Schenectady, Hamilton, and Otsego. The ten lowest counties are: Chemung, Genesee, Montgomery, Oneida, Orleans, Schuyler, Tioga, and Wyoming, all with no save harmless; Cayuga, less than 0.1 percent; and Lewis, with 0.2 percent.

A relationship exists between district wealth and save harmless aid. The wealthier a district is in terms of property valuation per pupil, the more likely it is to receive a higher amount of save harmless aid. For example, in 1977-78 the total save harmless aid paid to all districts whose wealth was less than $28,000 valuation per pupil was about 0.1 percent of their total operating aid. In all districts whose wealth is between $50,000 to $75,999 per pupil, on the other hand, save harmless accounts for 21.7 percent of total operating aid. The effect of save harmless aid has been to operate against the principle of equalization.

CHAPTER 3

THE EFFECT OF USING DIFFERENT VARIABLES IN VARIOUS STATE AID FORMULAS

How programs are cost weighted, how pupils are counted, how wealth is measured, and how expenditure level is computed affect the amount of State aid a district receives. In this section an attempt is made to evaluate the effects of using different measures in State aid formulas on local school districts in New York State.

USE OF ENROLLMENT VS. ATTENDANCE

A sample survey of local administrators of District Superintendents shows that they budget, plan, assign staff, purchase furniture, supplies and equipment, and make budgetary allocations to school buildings based on their best estimates of the enrollments in those school buildings rather than on average daily attendance.[1] Experience has shown that the total number of pupils who actually attend the school, rather than the actual number present on an average day, is the most appropriate basis for planning, budgeting, and expending funds. Yet New York like 16 other states, bases

---

[1] A telephone survey by Project staff revealed that 100 percent of the local school district administrators surveyed formulated their budgets on enrollments rather than ADA.

its State aid on pupil counts that are determined from average daily attendance (ADA).

Consider a school system which has a class size policy of 27 pupils per classroom. On an average day, some of these pupils will be absent. However, the school must provide a desk, textbooks, supplies, and auxiliary services based on 27 pupils. In fact, teachers generally regard a large number of absences as making their job more difficult rather than easier, since helping pupils to make up missed work involves an added burden of planning and teaching.

In the 1920's, when modern State aid formulas were first developed, most States used average daily attendance in State aid circulations. One reason for this was to encourage school districts to secure maximum pupil attendance. The States that use attendance have found it necessary to permit calculation of numerous exceptions to actual attendance in figuring pupil counts. These are caused by such phenomena as epidemics, severely cold weather, floods, and other emergencies. Many of them count attendance only during one or two months of the year. In calculating the pupil count for determining district wealth per pupil, New York State allows each district to select half of the attendance periods during the year during which it had the best attendance. Then, in figuring the pupil count for payment, New York uses actual full-year attendance. In the case of handicapped pupils (who generally have a rather good attendance record), aid payment is based on average daily

membership (ADM).

McLoone conducted a study to determine whether the use of attendance rather than membership in State aid formulas actually tended to result in better attendance. He concluded that "the old argument that the use of ADA in State aid plans as a measure of need improves attendance does not seem to hold today to the extent it did over the past fifty years."[1]

McLoone, also, compared the use of attendance, enrollment, and membership calculated in various ways against a set of criteria for use of pupil counts in State aid formulas. He concluded that the pupil count which best met the criteria was actual enrollment[2] as of a certain date or of a small number of dates. Such a pupil count is objectively measured, unambiguous, simple, and has common sense appeal. Actual enrollment (active membership) is not controllable by the district; fluctuates no more than the other measures as the number of pupils served changes; can be more easily audited; reduces the burden of paperwork on schools and the State; and lastly, makes possible current year pupil counts in calculating aid rather than prior year counts.

The use of ADA (Average Daily Attendance) rather

---

1 Eugene P. McLoone, Occasional Paper #16, "Effects of ADA and ADM When Utilized in the Measure of Educational Need in State School Finance Plans."

2 Actual enrollment has also been called active membership, live net roll, etc. For a pupil to be enrolled in school he must have attended school for one or more days during the immediate past attendance period.

than membership acts to the disadvantage of those school districts, principally urban, which as a result of the socio-economic composition of their student bodies, can be expected to have lower attendance ratios than in districts with higher socioeconomic levels. For example, the Buffalo public schools in 1975-1976 despite an excellent pupil attendance program,[1] achieved an ADA ratio of 90.5 percent compared to 93.4 percent upstate. If Buffalo increased its attendance ratio to the upstate average, its pupil count for State aid purpose would be increased by 3.2 percent and so would its State aid. Despite an excellent pupil attendance program, for Buffalo to appreciably increase its present attendance ratio appears unlikely. Yet, Buffalo must make provisions to educate all its pupils in active membership, not just those who happen to attend school on particular days during the school year.

EXPENDITURE, WEALTH, AND PAYMENT PUPIL MEASURES

The current formula uses three different pupil counts for expenditure, wealth, and payment. The use of three different pupil measures also increases the amount of paperwork required. The three counts appear to represent three different rationales. For example, average daily

---

[1] New York State Education Department, Buffalo Public Schools; A Review of the Instructional Program, May 1977.

attendance (ADA) is used as an indicator of the cost of educating a pupil, the expenditure per pupil based on the number of days school was in session. Resident weighted average daily attendance (RWADA) is used as an indicator of wealth in calculating Full Property Value per RWADA.

The differences between ADA and RWADA are many and based on several different ideas: (1) the resident weighted average daily attendance (RWADA) is based not on a yearly average basis, but rather on a selected period basis, that is the best of 4 of 8 or 5 of 10 attendance periods. The 4 or 5 poorest attendance periods are discarded. One effect, of course, is to increase the pupil factor to be used in the formula in determining wealth, making the district appear poorer than it is proportionately determined to be in spending per pupil; (2) the RWADA includes weightings in the following amounts for the following grade levels: pupils in half day kindergartens are weighted 0.5; pupils in full time kindergartens and in Grades 1-6, 1.00; and pupils in Grades 7-12, 1.25. The rationale for the weightings is that the costs for educating pupils in different school programs are in proportion to these weightings. Again, this use of RWADA for wealth compares to the use of unweighted average daily attendance (except for half-day kindergarten) in determining per pupil costs. One effect of this, of course, would be for school districts which have higher numbers of secondary school pupils to appear to have less wealth per pupil; and (3) the RWADA figure includes an addition of resident pupils

who are attending school outside the district, and a subtraction for nonresidents who are being educated within a district on a contract basis with another school district. It allows the district of residence to use only the pupils who live in the district in determining per pupil wealth.

The pupil count which is used for payment, however, is total aidable pupil units (TAPU), which uses combined adjusted average daily attendance (average attendance for the entire school year with no selection of periods, with no secondary weighting, a .50 weighting for half-day kindergarten), and a number of other special weightings. The rationale is that the special programs require additional program expenditures. The programs which are aidable through the TAPU formula and their additional pupil weightings are: Pupils with Special Educational Needs (PSEN), 0.25; Pupils with Handicapping Conditions (PHC), 1.00; Summer School Pupils, .12; Evening School Pupils, .50; Net Additional Secondary School Pupils (those not PSEN or PHC), 0.25.

The foundation formula[1] with its inconsistent pupil definitions reads as follows:

$$\text{State Aid} = [\$1400/ADA - .015 \times (V/RWADA)] \times (TAPU)$$

---

[1] Note: ADA equals combined adjusted average daily attendance; V equals full property valuation of the local school district; RWADA equals resident weighted average daily attendance; and TAPU equals total aidable pupil units.

Another mathematical equivalent way of illustrating the problem of inconsistent definitions is to show the units of measurement in the formula as follows:

$$\text{State Aid} = (\text{Dollars}) \left[1400\left(\frac{\text{TAPU}}{\text{ADA}}\right) - .015V \left(\frac{\text{TAPU}}{\text{RWADA}}\right) \right]$$

Aidable expenditures and local effort are affected by the relationship between TAPU and ADA, and between TAPU and RWADA. The ratio of TAPU to ADA inflates the aidable operating expenditures for districts spending below the maximum aid ceiling. The ratio of TAPU to RWADA adjusts the school district local share in a detrimental fashion. The local share is increased for districts which have more pupils with special educational needs (TAPU) relative to RWADA. The local share is decreased for school districts which have a large proportion of pupils in grades 7-12, and high seasonal resident attendance variations (RWADA) relative to their total aidable pupil units (TAPU).

Currently, those districts below average wealth which spend less than the State average, but above foundation level are penalized. Districts that are growing in pupils but not in wealth, receive a lower increment in aid per pupil. It would appear that an alternative formula with more consistent pupil definitions could better satisfy the objective of achieving and maintaining a specific level of expenditures and of local effort.

AID FOR PUPILS WITH SPECIAL EDUCATIONAL NEEDS

A special weighting provides aid for Pupils with Special Educational Needs (PSEN) who are more than two years below grade level as measured by tests in reading and mathematics. The pupil count for PSEN students is determined as follows: below average in reading and arithmetic (1971 and 1972) is determined; this percentage is multiplied by the district's total ADA to produce the number of pupils eligible for an additional weighting of 0.25 pupil units. The .25 PSEN weighting would seem to add flexibility to the measure of pupil need. The State mandates that funds derived for PSEN pupils be used exclusively for PSEN services and be separately accounted for.

Allocations for PSEN illustrate a problem of the pupil weighting feature.[1] Relatively high wealth districts receive less aid per pupil than poor districts. Thus, wealthy districts are required to provide less services for PSEN pupils than poorer districts. Yet, a PSEN pupil is defined precisely the same in a wealthy as in a poor district. The present requirements for the use of PSEN funds results in low-wealth, low-expenditure districts being required to provide their PSEN students with more services than those in high-wealth, high-expenditure districts. Of course, one theory is that wealthy districts can afford to pay for

---

1 Robert J. Goettel, Special Educational Needs and State Aid in New York, Study #3, New York State School Finance Law Study Project, p. 42.

additional services out of their local revenues. However, if they choose not to, the PSEN students are the losers.

SECONDARY SCHOOL PUPILS WITH SPECIAL EDUCATIONAL NEEDS

The State formula prohibits the PSEN weighting to any pupil who is allotted a weighting for any other reason. Consequently, secondary school students whose average daily attendance (ADA) is weighted by 1.25 (WADA) do not get the PSEN weighting. Thus, the law denies additional aid to pupils who are in junior or senior high and need special help in basic skills at the secondary level.

STATE AID FOR TUITION PURPOSES

In the case of pupils who reside in one district and attend school in another district on tuition contracts, State aid is paid to the district in which the pupil attends school rather than his district of residence. The district of residence is allowed to claim the pupil in its computation of RWADA; but the attendance of that pupil is claimed for ADA, TAPU, and in computing approved operating expenditures, by the district attended. If the wealth of the two districts differs, State aid is allocated in a disequalizing manner.

Consider a sending district which is very wealthy and a receiving district which is very poor. The following

would occur: If the sending district had to educate the child as it educates other pupils in its district, it would only receive the minimum aid per pupil of $360. The district would then have to provide the difference between its program cost, say $1,500 and $360, or $1,140 from local property tax revenues. However, by contracting with a poor district ($25,000 per pupil in wealth) for the same $1,500 program, the wealthy district can reduce its local costs. The poor district claims the contracted pupil for State aid purposes and receives $1,025 in State aid. The wealthy district need only provide $475 per pupil in local tax revenues to provide the $1,500 program, thus saving $665 ($1,140 less $475). The net effect is that an expense of $665 per pupil has been transferred from the wealthy school district to the State. The exact opposite effect occurs if the sending district is less wealthy than the receiving district (the expense is transferred from the State to the poor district).

To pay State aid to the district of residence would appear to be more equalizing than to pay State aid to the district of attendance. Small wealthy districts frequently send pupils out to high school in larger and poorer districts. The State aid for such pupils would be at rates appropriate to the wealth of the district of residence. This would result in State aid being used more appropriately for the purpose of equalization rather than property tax relief in wealthy districts.

SEVERELY HANDICAPPED CHILDREN

Severely handicapped children are served by programs described as (1) trainable mentally retarded, (2) emotionally disturbed, (3) learning disabled, i.e. learning handicapped, and (4) other physically handicapped. These programs may be located in public schools, private schools, Boards of Cooperative Educational Services (BOCES) or in Department of Mental Health schools. Under current State Education Law dealing with the handicapped, the amount of State aid paid for a given severely handicapped pupil depends upon the school in which the pupil is educated.

In the Fall of 1976, the number of severely handicapped children served was 72,832 (See Table 10). Programs for the severely handicapped are, of course, more expensive than those for other children. Cost per pupil is shown in Tables 11 and 12. The figures indicate a wide variability among and within programs. They reflect the varying complexity of handicap classifications, the many-faceted problems of the multi-handicapped, and the number in any locality or area.

The Big Five Cities are not eligible for BOCES aid.[1] Instead they receive special services aid. Goettel[2]

---

[1] Other districts may share BOCES sponsored programs and gain some benefit from BOCES aid.

[2] Robert J. Goettel, Special Educational Needs and State Aid in New York, p. 88.

TABLE 10

DISTRIBUTION OF SEVERELY HANDICAPPED CHILDREN, 1975-76

HANDICAPPED CONDITION (1)	TOTAL PUPILS SERVED (2)	IN OWN DISTRICT OF RESIDENCE (3)	IN BOCES (4)	CONTRACT WITH ANOTHER SCHOOL DISTRICT (5)	CONTRACT WITH ANOTHER AGENCY[b] (6)
Trainable Mentally Retarded	11,645	4,245	4,642	66	2,692
Emotionally Disturbed	32,513	23,922	4,947	219	3,425
Hard of Hearing	1,763	1,099	618	32	14
Physically Handicapped Other Than Orthopedic	26,911	20,401	3,749	96	2,665
TOTAL	72,832[a]	49,667	13,956	413	8,796

a. The total of all children with handicapping conditions was 208,289 including educable mentally retarded, speech impaired, deaf, legally blind, partially sighted and orthopedically handicapped.
b. Nonpublic under 4402 and 4407, and other agencies or institution.

TABLE 11

SEVERELY HANDICAPPED COSTS PER PUPIL 1975-76 (AVERAGE)

PROGRAM (1)	COST PER PUPIL (AVERAGE) DISTRICT OPERATED PROGRAMS (2)	BOCES OPERATED PROGRAMS (3)
Trainable Mentally Retarded	$3,762	$3,935
Emotionally Disabled	3,696	3,628
Hearing Disabled	7,953	4,762
Other Physically Handicapped	2,805	4,280

TABLE 12

SEVERELY HANDICAPPED COSTS PER PUPIL 1975-76 (RANGE)

PROGRAM (1)	COST PER PUPIL (RANGE) LOWEST (2)	HIGHEST (3)
Trainable Mentally Retarded	$ 247	$13,661
Emotionally Disabled	1,795	4,135
Hearing Disabled	566	15,180
Other Physically Handicapped	1,247	7,000

recommends that pupil weightings not be used to allocate State aid for pupils with severely handicapping conditions; that formulas used for special service aid to the Big Five and the percentage equalizing formula for BOCES aid be based on valid cost data analysis; that such formulas reflect regional cost variations; and that the Big Five be given the same option in selecting the legal formula which provides them with the most funds -- as a BOCES now does.

ADJUSTING THE FORMULA FOR CHANGES IN FULL VALUATION

During the 1960's when the Diefendorf formula was in effect, the formula aid to each district was calculated on the basis of an aid ratio. The percentage of the foundation program cost which was paid by the State in each district

depended upon the relationship of the wealth per pupil of that district to the State average wealth. Inflation was not particularly high during those years. Consequently, the formula had the effect of maintaining essentially the same total State share of the cost of the foundation program from year to year. The aid ratio of any district might be adjusted slightly upward or downward each year depending on whether its wealth had increased at a rate less or more than the State average.

Any district whose valuation per pupil was increasing at the State average rate would therefore have maintained the same identical aid ratio from year to year. In any year, when the formula ceiling was not increased, the total cost to the State would remain very nearly the same as the year before. Actually, the cost might vary upward or downward slightly depending on whether the districts whose aid ratios increased or decreased the most were large or small.

Under the millage formula adopted in 1974, this automatic inflation correction for property valuation was eliminated. The millage formula did not relate the wealth of a district to the State's wealth. Instead, the formula defined a local contribution as the revenue derived from a tax rate of $15 per $1,000 on the districts full property valuation. Under the current formula, each district which increased in full property valuation would be entitled to less State aid per pupil, provided the State does not increase the guaranteed expenditure level ceiling.

Rather than adjust to the problem of inflation by readopting an aid ratio type formula, the State Legislature has continued in effect a save harmless provision. Thus, districts which would receive less State aid per pupil under the current formula are permitted to receive the same amount of State aid as in a previous year. This provision has tended to favor wealthier districts and has been a substantial disequalizing factor in State aid apportionment.

In any given year, a given formula can be expressed either in terms of a millage or aid ratio type formula. Doing so, and for that year only, a given district would receive the same amount of State aid regardless of which way the formula is expressed. Under the aid ratio format, however, the annual adjustment for inflation described herein would occur. This simple correction to the required tax rate in a millage type formula derived from the aid ratio type formula would have been a major factor in permitting an annual adjustment for inflation. The adjustment described here is not to increase aid to school districts in proportion to inflation, but to keep the total amount of State aid the same rather than permit it to decline as property values are inflated.

THE EFFECTS OF GROWTH AID

In general, State aid to local school districts has been based upon audited data for the preceding school

year. In the 1950's some school districts increased greatly in pupil population, particularly metropolitan suburban school districts. Since State aid was based on the previous year's audited data, rapidly growing school districts were compelled to bear locally increased costs due to increased pupils. The State Legislature enacted into law State aid (Growth aid) for districts with rapidly growing pupil populations. Districts eligible for Growth Aid were permitted to make an adjustment to their operating expense aid to compensate for the increase between the base (preceding) year and the current one in which State aid was paid.

Growth aid is calculated by applying to operating expense aid the percentage of increase in aidable pupils for the current year over the base year. An estimate of growth aid is permitted which compares the first attendance period of the current year to the first attendance period of the base year. When the data are audited, and the actual percent pupil increase is certified, the estimated growth aid is adjusted. Obviously, this procedure adds to paperwork and accounting procedures both locally and at the State level.

CHAPTER 4

THE PUPIL TRANSPORTATION PROGRAM

The centralization of small elementary school districts, union free schools and academies meant that distances from home to school buildings were increased beyond a reasonable walking distance for school children. This resulted in a Statewide pupil transportation program. Over the years the pupil transportation program grew to a point where almost 1.6 million pupils were transported in New York State in 1975-76. Data on the magnitude of the pupil transportation program in New York State are contained in Table 13.

TABLE 13

SCOPE OF PUPIL TRANSPORTATION PROGRAM IN NEW YORK STATE, 1975-76

(Exclusive of New York City)

CATEGORY (1)	PUPILS ENROLLED (2)	PUPILS TRANSPORTED (3)	PERCENT OF PUPILS TRANSPORTED (4)
Public Schools	2,285,909	1,447,839	63.3%
Nonpublic Schools	287,451	147,904	51.5%
TOTAL	2,573,360	1,595,743	62.0%

In 1975-76, State aid for pupil transportation amounted to $253 million. Of this total, State aid to New York City accounted for $101 million. In 1974-75, expenditures for pupil transportation amounted to $321 million and State aid, $222 million. Of this total, State aid to New York City accounted for $82 million. State aid for pupil transportation rose 41.3 percent from 1971-72 to 1975-76, whereas expenditures rose 41.0 percent. State aid, as a percent of total expenditures for pupil transportation, increased from 68 percent in 1972-73 to 70 percent in 1975-76 (See Table 14).

TABLE 14

TOTAL EXPENDITURES AND STATE AID FOR PUPIL TRANSPORATION PROGRAM IN NEW YORK STATE, 1971-72 TO 1975-76

SCHOOL YEAR ENDING JUNE 30 (1)	TOTAL EXPENDITURES (In Millions) (2)	TOTAL STATE AID (In Millions) (3)	PERCENT STATE AID (4)	PERCENT STATE AID IS OF PRIOR YEARS EXPENDITURES (5)
1976	$364	$253	70%	79%
1975	321	222	69	76
1974	294	199	68	72
1973	276	187	68	72
1972	258	179	69	--

NOTE: State aid for transportation in a current year is calculated by the State from actual data for the previous year; i.e. State aid for 1975-76 is based upon 1974-75 pupil transportation expenditures. Col. (4) is obtained by dividing Col. (3) by Col. (2) for the same year, i.e. In 1976, the 73 percent figure was obtained by dividing $253M by $348M. Col. (5) is obtained by dividing Col. (3) for a given year by Col. (2) for a previous year, i.e. In 1976, the 79 percent figure was obtained by dividing $253M by $321M.

THE EFFECT OF STATE AID FOR PUPIL TRANSPORTATION

The tax rate required to pay for local support of pupil transportation can be used as an index of the equalizing or disequalizing effect of State aid for pupil transportation. The rate varied from $.07 mills to $6.14 per $1000 of full property valuation in 1975-76. The median value was $0.73. A district-by-district tabulation shows that in general the poorest districts had to tax themselves at significantly higher rates than the wealthiest districts to support the local share of pupil transportation expenditures (See Table 15). On the average, in 1975-76, 7 percent of total school expenditures went for pupil transportation in low expenditure-low wealth districts, compared to 4 percent in high expenditure-high wealth districts. The result was a reduction of available funds for approved operating expenses such as instruction, pupil personnel services, etc., in poor districts compared to wealthy districts.

INEQUITY AND MANIPULATION OF PUPIL TRANSPORTATION FORMULA

The pupil transportation aid formula contains some inequities and offers some possibilities for local manipulation. For example, if a district uses a sixty capacity bus on any trip in which students occupy less than 90 percent of its capacity, the district faces a reduction in State aid,

TABLE 15

EQUALIZED FULL PROPERTY TAX RATE TO PROVIDE LOCAL SHARE OF PUPIL TRANSPORTATION COSTS, 1975-76

PERCENTILE VALUE (1)	TAX RATE IN DOLLARS PER $1,000 OF FULL PROPERTY VALUATION (2)
Highest	$6.14
90th	1.81
75th	1.19
50th (Median)	.73
25th	.45
10th	.25
Lowest	.07

NOTE: The tax rates drop rapidly from the highest value, i.e. the 98th percentile value is $2.97. The table is read as follows: the tax rate at the 75th percentile to support the local share of pupil transportation costs is $1.19; the 50th percentile or median tax rate is $0.73.

even though riding time is kept to a minimum and buses are efficiently routed. Capacity and pupil miles are based on eligible riders and route miles. The reporting of one additional rider may change State aid by thousands of dollars. Further, switching of bus route numbers can change the State's allowable capacity allowance.

A district buying new buses is subject to averag-

ing of capacity. For example, a district buys two 60 passenger buses and one 30 passenger bus. Rated capacity is computed as follows: 150 divided by 3 equals 50. The two larger buses require an allowable capacity of 54, i.e. 90 percent of 60. Therefore each of the larger buses loses 10 percent in State aid.

EFFECTS OF STATE AID FOR DISTRICT OWNED, CONTRACT AND PUBLIC SERVICE PUPIL TRANSPORTATION

Local school boards exert various options in providing pupil transportation. As Table 16 shows, out of every 10 districts, 4 operate their own systems; one contracts for the service; 4 use a combination of district

TABLE 16

NUMBER DISTRICTS USING VARIOUS MODES OF PUPIL TRANSPORTATION, 1974-75

MODE OF TRANSPORTATION (1)	LOCAL SCHOOL DISTRICTS NUMBER (2)	PERCENT (3)
District owned	268	38.9%
Contract	69	10.0
Combination of District-owned & Contract	255	37.0
Other Combinations	97	14.1
TOTAL	689	100.0%

owned and contract; while one uses some combination of district owned, contract, or public service.

Expenditures for district owned and operated pupil transportation accounted for $116.8 million in 1974-75 or 59.8 percent of the total (exclusive of New York City); for contract systems, 37.6 percent; public service, 2.6 percent. (See Table 17). The most popular form, district operated pupil transportation programs receive 68.8 percent state reimbursement compared to 76.4 percent for contracted, and 88.2 percent for public service.

District owned transportation operates at a disadvantage in state aid policy. This is because fringe benefits are not included under approved transportation costs as they are for contract districts. As a result, these costs (for district owned) are aided under the operating aid formula which provides less money than if they were aided under the transportation formula (as is done with contract districts).

When the district owned transportation costs are adjusted to include fringe benefits it appears that there is little difference between those costs and the transportation costs in contract districts.

An examination of the administrative procedures involved in transportation indicates a massive amount of paperwork. A great deal of it grows out of State Education Law. A reappraisal of both law and related administrative regulation and procedures is in order.

TABLE 17

EXPENDITURES AND STATE AID FOR PUPIL TRANSPORTATION RELATED TO MODE OF OPERATION

(Exclusive of New York City)

MODE OF TRANSPORTATION (1)	EXPENDITURES (1974-75) AMOUNT IN MILLIONS (2)	EXPENDITURES (1974-75) PERCENT OF TOTAL (3)	STATE AID (1975-76) AMOUNT IN MILLIONS (4)	STATE AID (1975-76) STATE AID AS PERCENT OF TOTAL EXPENDITURES (5)
District Owned and Operated	$116.8	59.8%	$80.3	68.8%
Contracted	73.3	37.6	56.0	76.4
Public Service	5.1	2.6	4.5	88.2
TOTAL	$195.2	100.0%	$140.8	72.1%

ECONOMY DISCOURAGED IN PUPIL TRANSPORTATION

From the foregoing analysis, it appeared that State aid for pupil transportation eroded the equalization of instructional services, rewarded uneconomical practices and required a great deal of overly complex reporting procedures.

APPENDIX

LIST OF PROJECT 842 MAJOR STUDIES

AND OCCASIONAL PAPERS

List of Major Studies

Study	Title
1	An Analysis of the Impact of State Aid on Local School Districts in New York State
2	Program Breadth and Staffing of New York State Schools
3	Special Educational Needs and State Aid in New York
4	The Study of Ability
5	A Study of Adjustments for Regional Differences in the Costs of Educational Inputs
6	A Study of the Regional Services
7	School District Organization
8	A Study of the Financing of Nonpublic School Elementary and Secondary Education
9	Future State Planning
10	The Projections of Pupil Population in New York State
11	The Projections of United States and New York State Revenues and Expenditures
12	Analysis of Possible Formulas
13	A Study of Expenditure Limitations

APPENDIX

LIST OF PROJECT 842 MAJOR STUDIES

AND OCCASIONAL PAPERS (Con't.)

List of Occasional Papers

Paper	Title
1	Shifting the Burden of Property Taxes on Other Taxes in New York State
2	Legislative Purposes of Chapter 241, 1974 Legislation on State Aid for Elementary and Secondary Schools
3	State Aid to Nonpublic Schools
4	Voucher System as an Alternative Educational Program
5	Wither School Finance in New York?
6	Equity in Public School Financing
7	School Finance Reform: Emerging Issues and Needed Research
8	Measuring Local Fiscal Ability to Support Education
9	School Expenditures and Relative Wealth 1956 - 1976
10	Use of Income as a Measure of Local Fiscal Ability in the State School Aid Formula
11	"R & D" -- And the "Three R's:" Incentives for School Districts' Research and Development Expenditures to Promote Increased Productivity
12	Achieving Quality in Education: Review and Suggested Intervention Strategies for Quality Education
13	A Study of Occupational Education Costs
14	Development of Public School Finance in New York State
15	A Study of Expenditure Controls with Special Emphasis for New York State

APPENDIX

LIST OF PROJECT 842 MAJOR STUDIES AND OCCASIONAL PAPERS (Con't.)

List of Occasional Papers

Paper	Title
16	The Measure of Educational Need in State School Finance Plans
17	State Responsibility and Nonpublic Education
18	Alternative Concepts of School Efficiency
19	Efficiency in the Administration of Public Education
20	A Tax Leeway Study: Property Taxes, Individual Income Taxes and Sales and Gross Receipts Taxes in the United States and New York State
21	Some Thoughts on Educational Productivity and Education Policy
22	The New York State Evaluation System
23	The Quality of Schooling: An Analysis of the Quality of New York State Elementary and Secondary Education
24	Redesigning Federal Grant Programs
25	The Role and Significance of Nonpublic Education in New York State